

Yields Rise Sharply on Unexpectedly Strong (but Noisy) Labor Report

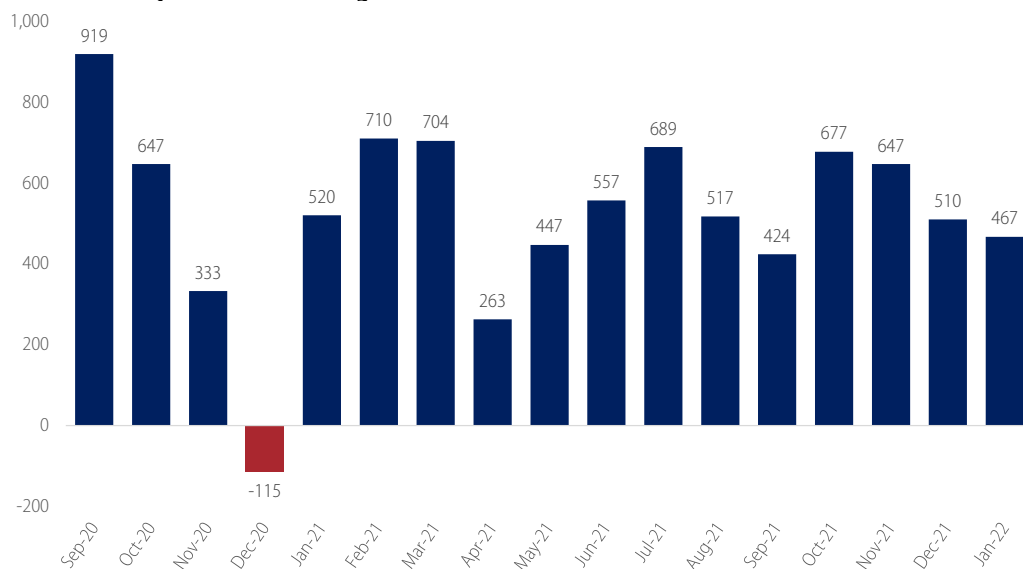
Non-farm payrolls rose by +467k in January, well above the median forecast of +125k, and nearly double the highest expected gain among the 78 economists surveyed by *Bloomberg* before the release. Adding to the surprising January payroll print was a massive +709k upward adjustment to the previous two months. *Suddenly, the labor market, which had been looking peaked, seems to have perked up.*

But, this report is a noisy one. It not only includes seasonal adjustments in a month historically tough to gauge, but annual adjustments that reshuffled the deck, effectively pulling large payroll increases away from the summer months and boosting the fall and winter count. A counter-balance to the +708k upward revision to Nov/Dec is a downward adjustment to June/July which dragged that two-month average down from +1,026k to +626k. Suddenly, the month-to-month volatility has been smoothed out.

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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Average company payrolls have now increased by +19.1 million since April 2020, but remain -2.9 million below the February 2020 total. This shortfall has been puzzlingly tough to make up.

The unemployment rate (calculated with data from the separate household survey) actually climbed from 3.9% to 4.0%, although this increase was the result of a rise in the number of job seekers stepping off the sidelines. The number of Americans either employed or actively seeking work increased by nearly 1.4 million, while 1.2 million found work. This boosted the labor force participation rate up from 61.9 to 62.2, although much of this is a result of annual adjustments to the population controls.

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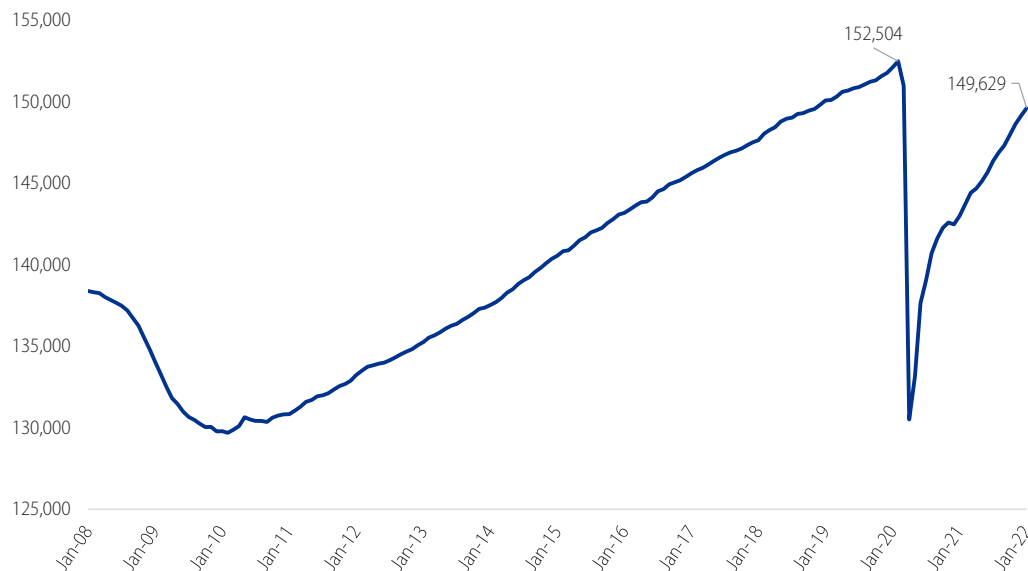
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In January, 6.5 million Americans were seeking work and thus officially considered to be unemployed. This is 3.7 million less than a year ago, and now just 800k above the pre-pandemic count.

There were 3.6 million employed workers unable to work due to illness in January, more than double the previous month, while 6 million were unable to work because their employer closed or lost business during the pandemic, also nearly double the December total. Of these, less than 25% received at least some pay.

This category comes with a big asterisk as seasonal adjustments assume holiday workers will be laid-off in January, but in the current reality, employers really can't afford to let anyone go right now.

Total Non-Farm Payrolls (in thousands)



Source: Bureau of Labor Statistics

The leisure and hospitality sector added +151k jobs in January, and is now -1.8 million or -10.3% below February 2020 total. This category comes with a big asterisk as seasonal adjustments assume holiday workers will be laid-off in January, but in the current reality, employers really can't afford to let anyone go right now.

Professional and business services added +86k jobs in January, and are now +511k above the pre-pandemic count. Retail services added +61k jobs in January and are marginally above pre-pandemic levels. Transportation and warehousing services added +54k jobs, boosting the total +542k above the February 2020 count.

Average hourly earnings were up +0.7% for the month and a whopping +5.7% year-over-year, up from +4.9%. This number is also among the distorted as low wage workers were disproportionately sidelined in January.

Local government education jobs climbed +29k in January but remain -359k or -4.4% below the pre-pandemic count. Similarly, health care added +18k jobs last month, but remain -378k or -2.3% below the February 2020 count.

The number of part-time workers who would *rather work full-time*, was 3.7 million in January, down from 5.9 million a year ago, and now -673k below the pre-pandemic count.

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This report will keep analysts busy for weeks. There are so many factors to consider. The markets see increased economic strength and wage pressure, and have interpreted this as validation that the Fed will act more aggressively to slow demand and cool inflationary pressure.

Yields are higher across the board in response, while stocks are mixed. Volatility is alive and well; great for traders, but unnerving for investors.

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Market Indications as of 10:39 A.M. Central Time

DOW	Down -115 to 34,996 (HIGH: 36,800)
NASDAQ	Up 109 to 13,988 (HIGH: 16,057)
S&P 500	Down -16 to 4,461 (HIGH: 4,797)
1-Yr T-bill	current yield 0.86%; opening yield 0.74%
2-Yr T-note	current yield 1.30%; opening yield 1.20%
3-Yr T-note	current yield 1.53%; opening yield 1.43%
5-Yr T-note	current yield 1.77%; opening yield 1.67%
10-Yr T-note	current yield 1.92%; opening yield 1.83%
30-Yr T-bond	current yield 2.22%; opening yield 2.15%

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